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LIQUOR CONTROL BOARD

The PA Liquor Control Board: Renaissance Amidst Controversy

Ken Skelly
June 25, 2009



- The Pennsylvania Liquor Control Board
- Doing Business in Pennsylvania
- Modernization of the PLCB



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The Pennsylvania Liquor Control Board

Facts and Figures



- Largest of 22 Control Jurisdictions --18 States, 4 MD counties, and NC has many control jurisdictions
 - 621 Stores in 67 Counties [about 40 (mostly in rural areas) not “profitable,” but the overall contribution (with tax revenues) and the importance of serving citizens & licensees keep stores open]
 - 3 Distribution Centers
 - Yearly: 12.5M Cases, 120M Bottles/Boxes, 51.4M Retail Transactions, **>1M Minor Challenges**
 - 4,500 employees, mostly Union and Civil Service
 - 17,000 Alcohol Beverage Licensees
- Sales in 2008: \$1,766,476,134.00
- Taxes, fees, and profits to the Commonwealth of Pennsylvania in FY 2008:
\$512,852,535.00

- PA: Adult (LDA) Population - 9.2M (5th)
- Wine consumption (*per capita*) - 36th of 51
- Bottles of Wine for every 100 LDA:
 - Average of all Control: 1,334
 - Average of all License: 1,737
 - PA: 1,061 (20% below Control, 39% below License)



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You've Got a Friend in Pennsylvania

**Doing Business in PA as a Supplier,
Wholesaler, Retailer, Vendor/Broker or
Transporter of Alcohol Beverages**



- Three Member Board and the Office of Regulatory Affairs, Bureau of Licensing investigate and grant licenses and permits for approximately 20,000 businesses
- Industry Members – Tier One and Tier Two
 - Manufacturers, Importers (Suppliers)
 - Wholesalers (only MB Beverages, in PA)
- Retailers – Tier Three
- Others

- Suppliers and Others
 - Alternating Brewer (AG)
 - Brewer (G)
 - Limited Winery (LK)
 - Direct Wine Shipper (DWS)
 - Distillery (A)
 - Importer (I)
 - Sales Permit – Liquor (SP)
 - Vendor's Permit – Wine (VP)

- Beverages: (MB) malt, brewed (W) wine (S) spirits
- Entity: Person, business org. (association, corporation)
 - Applicant, partner, director, officer, shareholder
- Residency/Citizenship: Vary upon entity applying
 - PA: Must be residents of PA
 - US: Must be US citizen or have resident alien status
- Fees: Renewal (Validation) (1st Application)/License
(Basis for *pro rata* charge, **if permitted**; e.g., quarterly)
- Privileges: Min.: # containers/ozs. *per* container
- Date/Term: (License expires)/(License Term/Renewal)

- Entity: all directors must be PA, US;
all Officers, US
 - Beer Brand Registration is required
- Filing Fees: License (\$30) (\$700)/\$1425
(quarterly)
- Privileges: Produce MB at another PA brewer's
premises; Transport, sell, deliver such MB, in min.
24/7 or 12/24; Sell MB produced and owned by
AG on premises; No Sunday.
- Date/Term: Dec. 31/(Two Year/One Year)

- Entity: Responsible entity of good reputation; all applicants, partners, directors must be PA, US; all corporate officers must be US
- Beer Brand Registration required
- Filing Fees: License (\$30)(\$700)/\$1425 (quarterly)
- Privileges: Produce MB; Transport, sell, deliver such MB, in min. 24/7 or 12/24; Sell MB produced and owned by G on premises; No Sunday without Sunday Sales Permit
- Date/Term: Dec. 31/(Two Year/One Year)

- Entity: Reputable US citizen or firm
 - May apply for up to 5 Board-approved satellite locations other than main licensed winery premises
 - May apply for Special Wine Permit to participate in wine, alc cider and food expos off licensed premises
- Filing Fees: License (\$30) (\$700)/\$385 (quarterly)
 - Satellite: (\$75) (\$220)/None
 - SWP: (\$30/day), Maximum: 5 consecutive days, 40 days in calendar year

Limited Winery (LK) (Cont'd.)

- Privileges: Produce W, alcoholic ciders up to 200,000 gal./yr. and sell (on licensed premises, by phone, mail or internet) to licensees and individuals; May sell food (whether for on- or off-premise consumption); May use agents, but registration is not required; May ship/deliver to private homes (directly or *via* licensed Transporter for Hire); May offer samples on premises to visitors
- Satellite: May sell alcoholic cider, W and W coolers produced by LK; May sell W or liquor-scented candles produced or acquired by LK
- SWP: Sell alc cider and W produced, glass, bottle or case, scented candles; offer 1 oz. tastings
- Date/Term: Dec. 31/(Two Year/One Year)

- Entity outside of PA, US that accepts orders for wine from within PA *via* the internet
- Filing Fees: None/None
- Privileges: Ship (or facilitate the shipment of) wine by a delivery agent or common carrier (“Transporter for Hire”) to a PA Liquor Store
- Date/Term: Dec. 31/(Two Year/One Year)

- Entity: Reputable US Citizen or firm
- Filing Fees: License (\$30) (\$700)/\$5,400 (quarterly)
- Privileges: Produce, possess, store, purchase, receive, sell at wholesale, remove and deliver alcohol and whiskey in compliance with laws; may use agents, but registration is not required
- Date/Term: Dec. 31/(Two Year/One Year)

- Entity: Responsible entity of good reputation; individual applicants, partners must be US (or resident aliens), PA; Corporate officers, directors, stockholders must be US
- Filing Fees: License (\$30) (\$700)/\$265
- Privileges: Import from outside of PA and obtain tax-paid liquors from mfrs. within PA to be sold outside of PA, or within PA exclusively to PLCB or, where in original containers with capacity at least 10 gallons, to licensed manufacturers
- Date/Term: Dec. 31/(Two Year/One Year)



Sales Permit – Liquor (SP)



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- Entity: Out-of-State firm selling Liquor not manufactured in PA to PLCB
- Filing Fees: License None/Reciprocal (Ranges from \$0.00 to \$5,000.00, determined by fee charged PA Manufacturer selling product in the State or country where product manufactured)
- Privileges: Sell liquors not made in PA to PLCB
- Date/Term: Dec. 31/(Two Year/One Year)



Vendor's Permit – Wine (VP)



- Entity: Out-of-State firm selling Wine to PLCB
- Filing Fees: License (\$30) (\$700)/\$265
- Privileges: Qualifies for registration of agents (brokers)
- Date/Term: Dec. 31/(Two Years/One Year)



Malt Beverage Distributor (D)



- Responsible entity of good repute; all principals must be PA for at least 2 yrs. pre-app and US
 - If a corp., at least 51% of capital stock must be owned by individuals who are PA for at least 2 yrs. pre-app., and US
- Filing Fees: License (\$30) (\$700)/\$600
- Privileges: Purchase MB from PA mfrs. & ID; Off-Premises sales to Retail licensees, or home trade, of quantities of at least one case or original containers containing 128 oz. or more; No Sunday Sales without Sunday Sales Permit; No on-premises consumption
- Date/Term: Depends on District (No. 1 through 11: last day of Jan. through Nov, respectively)/(One/Four Years)



Malt Beverage Importing Distributor (ID)



- Responsible entity of good repute; all principals must be PA for at least 2 yrs. pre-app and US
 - If a corp., at least 51% of capital stock must be owned by individuals who are PA for at least 2 yrs. pre-app., and US
- Filing Fees: License (\$30) (\$700)/\$1,350
- Privileges: Purchase MB outside of PA & from PA mfrs. & ID; Off-Premises sales to D, Retail licensees, or other persons of quantities of at least one case or original containers containing 128 oz. or more; No Sunday Sales without Sunday Sales Permit; No on-premises consumption
- Date/Term: Depends on District (No. 1 through 11: last day of Jan. through Nov, respectively)/(One/Four Years)



Other PLCB Licenses and Permits



- **Airport Restaurant (AR)**
- **Alcohol Non-Beverage (AN)**
- **Bailee for Hire (J)**
- **Bonded Warehouse (B)**
- **Brandy Permit (BR)**
- **Brewery Pub (GP)**
- **Brewery Storage (GS)**
- **Bulk Liquor Purchase (Mfrs./non-bev) (BP)**
- **Catering Club (CC)**
- **Club (C)**
- **Club (MB only) (O)**
- **Continuing Care Retirement Community (CRR)**
- **Continuing Care Retirement Community Retail Dispenser (MB only) (CRE)**
- **Department of Defense (DOD)**

Other PLCB Licenses and Permits (cont'd)

- **Distillery of Historical Significance (AH)**
- **Distillery Certificate Broker Permit (LB)**
- **Eating Place (MB only) (E)**
- **Economic Development “E” (MB only) (EDE)**
- **Economic Development Restaurant (EDR)**
- **Golf Course (Municipal) Restaurant (GR)**
- **Golf Course (Municipal) “E” (MB only) (GE)**
- **Golf Course (Privately-Owned) Private “CC” (GCC)**
- **Golf Course (Privately-Owned) Private Club (PGC)**
- **Golf Course (Privately-Owned) Public Restaurant (PGR)**
- **Golf Course (Privately-Owned) “E” (MB only) (GCE)**
- **Golf Course (Privately-Owned, Public) “E” (MB only) (PGE)**
- **Hotel (H)**
- **Hotel (MB only) (L)**

Other PLCB Licenses and Permits (cont'd)

- **Importer's Warehouse (IZ)**
- **Manufacturer's Storage Out-of-State (MSF)**
- **Off Track Wagering Restaurant (OWR)**
- **Performing Arts Facility Restaurant (PAF)**
- **Public Service Liquor (P)**
- **Public Service Malt Beverage (MB only) (PM)**
- **Public Venue (PV)**
- **Restaurant (R)**
- **Sacramental Wine (S)**
- **Special Occasion Permit (SO)**
- **Special Occasion Permit (MB only) (SOM)**
- **Transporter for Hire (Class A - IA) (Class B – IB) [Class C – (IU)]**
- **Wholesale Liquor Purchase Permit (HP – Hospital) (LN – Manufacturing Pharmacist)**
- **Wine Auction Permit (WAP)**
- **Winery (K)**



Bureau of Licensing Contact Information



- Pennsylvania Liquor Control Board
 - Bureau of Licensing:
 - **Phone:** (717) 783-8250
 - **Fax:** (717) 772-2165
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Modernization of the PLCB

Turning Around a Large Ship in a Narrow Canal



- We're a Monopoly; Why bother?
 - 2002-3 Transition Report to Governor Rendell
 - Promote best retail practices to maximize return to the General Fund and our shareholders, the taxpayers of Pennsylvania

- Isn't Our Mission to Control Beverage Alcohol?
- The Mission of the PLCB is to:
 - Regulate the Beverage Alcohol Industry in a Fair and Consistent Manner
 - Provide Best Service to Customers
 - Modern, convenient outlets
 - Superior product selection
 - Competitive prices
 - In a controlled environment
 - Comprehensive education program/Grants (\$700K)

- Hiring and travel freezes in states severely hit by reduced tax revenues and unemployment make it difficult, but no less important, to invest now
- PLCB is an Independent State Agency, like:
 - PA Turnpike Commission, PA Higher Education Assistance Agency, PA Gaming Control Board
- All are criticized for trying to operate more like a business for the benefit of their stakeholders

- Special Liquor Orders - any commercially available wine or spirits product can be ordered through SLO; Now, about **20,000 Items**
- Hotline -- 1-800-332-PLCB, for special product requests, information, purchase a gift (or gift card) by credit card
- Web -- <http://www.pawineandspirits.com> Easy search features, enhanced wine info, over 2,500 Wines, Distilled Spirits, Accessories

- <http://www.lcb.state.pa.us>
- Bureau of Licensing: Searchable Database – Corporate Principals, Citations, License Status
 - **Look for “PA Licensing Search”**
- Legal Department: Liquor Code, Regulations, Legal Advisory Notices, Legal Advisory Opinions
 - **Look “For Licensees/Legal Issues”**

- Solutions 21, a Pittsburgh firm, awarded PLCB contract (approved by AG) to develop training for over 2,800 store employees in 2009
- \$173,000 NOT from tax dollars
- Other bids: \$400K, \$1.4M
- Legislative, Editorial Opposition

- Training all managers and providing materials (training kits) for 24 training sessions with all store employees
 - Interact with customers
 - Positive shopping experience for customers
 - Product knowledge to enhance selection
 - Resolve complaints
 - Responsible selling (especially dealing with Minors, Visibly Intoxicated Persons)
- Chairman asked Auditor General to investigate
 - No violation of laws; need better documentation
- Store managers' response: Positive

PLCB Initiatives: There's More!?

- ERP
- Reorganization
- POS
- Wine Kiosks
- Lottery
- Supply Chain (Bailment?)
- Category Management
- And on, and on ...

- Legacy technical structure from 1970's; took months to close a financial period
- Manages supply chain, POS (cash registers), accounting - little connectivity
- Thus, had not one, single version of the "Truth"
- Enterprise Resource Planning (Oracle), a retailer-oriented system, in Three (3) + Waves
- Wave II 'Live' as of March 2; Over 35 business processes (e.g., order management, inventory control, sales audits), replaced 75% of "legacy"

- Wave III, began June 1, and affects Store Inventory Management, customer and licensee ordering systems, category management, several budgeting components
- All Processes will rely upon Only One Single Version of Truth
- Financial periods will be closed in several days, not weeks

- Governor Rendell wants the PLCB to operate more like a modern specialty retail business than a government agency
- Now: Regulatory Affairs, Administration, Marketing
- To be added: Finance, Supply Chain, Retail Operations
- Flatter organization, Deeper expertise

- All POS technology is outdated, will not comply with minimum PCI (Payment Card Industry) standards, could lose ability to process credit card sales
- Hardware/software - 10+ years old, parts, support and maintenance problematic, scanners cannot read new coupons
- Coding language (4690 BASIC) – restrictive, few resources available
- Hope to have new POS by Nov., 2010

Other Initiatives: Miscellaneous

- With statutory amendments proposed, PLCB customers may be able to play the Lottery
- Supply chain study may result in Bailment
- Real Estate Profitability Committee
- Customer Service Training
- Data Power House (DPH)
- Category Management
- Wine Kiosks
- I-Store Project
- Branding and Imaging



We Would Welcome You to Pennsylvania!



- The PLCB is an agency in transition
- We want to serve you and the citizens of Pennsylvania even better in the future than we have in the past
- My time is up, and I sincerely ...

Thank you For Yours!

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